



THE EFFECTS OF BREXIT ON THE ROMANIAN ECONOMY. CHALLENGES AND OPPORTUNITIES AT THE EUROPEAN LEVEL.

The Chamber of Commerce and Industry of Romania (CCIR), as a member of EUROCHAMBRES (The Association of European Chambers of Commerce and Industry) upholds the integrity and consolidation of the single market and the European Union as an economic and political project.

As with regard to the national priorities, CCIR is interested in maintaining as much as possible the *status-quo*, respectively **a low level of tariff and non-tariff barriers** in trade with goods and services in the post-Brexit period. From this perspective, as it is stated in the position paper of EUROCHAMBRES concerning the negotiations with Great Britain, the following issues should be taken into consideration:

- **Ensuring mechanisms for diminishing divergences on non-tariff barriers, regulatory and administrative issues;**
- **Zero or close to zero tariffs on goods;**
- **Practical and simple new rules and procedures for trade in goods and services, in order to minimize additional costs;**
- **Close cooperation between the EU negotiators and business community, including small & medium sized enterprises (SMEs);**
- **Proper management of the implications on the European Union's budget;**
- **Guaranteeing the rights of the EU citizens legally settled in the UK, as well as of the UK citizens settled in the EU (Butters, 03.2017, p.2).**

The legal framework for the withdrawal of the United Kingdom from the European Union

The legal framework on the withdrawal of the United Kingdom from the European Union is assured by the provisions of the Lisbon Treaty corroborated with the results of the referendum from June 23, 2016, when 51,9% of British citizens have voted in favor of leaving the European Union.

The right of a member state to withdraw from the European Union has been introduced for the first time in 2009 once the Lisbon Treaty entered into force. Thus, the treaties of European Union cease to apply to the state in question from the date of entry into force of the withdrawal agreement or, otherwise, after two years from the European Council's notification on the intention to withdraw, unless the European Council in agreement with the member state in question, decide unanimously to extend this period (The Lisbon Treaty, Article 50).

On 29th of March 2017, the British Government had officially initiated the process for withdrawing from the European Union, by triggering Article 50 of the Lisbon Treaty.

Theresa May, the Prime-Minister of Great Britain, characterizes Brexit as a method by which Great Britain can regain its sovereignty, especially on immigration, trade and legislation. From the Prime Minister's point of view, this can be accomplished by *leaving the Single Market and by signing a comprehensive free trade agreement with the European Union* (May Answers the Big Brexit Question, 18.01.2017). However, we must consider that the negotiation and the ratification of a commercial agreement can take years, as every national parliament must express its opinion by voting or not the agreement. An example in this regard is the EU - Canada Comprehensive Economic and Trade Agreement (CETA), whose process of negotiation began in 2009 and completed in 2016, while the ratification process has just started.

According to the resolution adopted by the European Parliament regarding the principles and the key conditions for approving the withdrawal of the United Kingdom from the European Union, *Great Britain remains a member state until the official exit date, this thing implying rights and obligations, including financial commitments that may extend beyond the date of withdrawal* (Soare, 05.04.2017). The transitional arrangements can not last more than three years, while the agreement regarding the future relationship between the EU and UK can be ended only after Great Britain fully withdraws from the European Union. Furthermore, the European Parliament highlighted that United Kingdom would violate the legislation, if it will negotiate trade agreements with third countries before leaving the community bloc.

The chief negotiator of the European Union for Brexit, Michel Barnier, emphasized that *in order to succeed, the first phase of the negotiations must be exclusively consecrated to obtaining an agreement based on the exit principles* (Baume, Herszenhorn, 05.04.2017). He stressed that this approach does not aim to create difficulties for Great Britain, but to maximize the chances for obtaining a bilateral agreement in a two-year period.

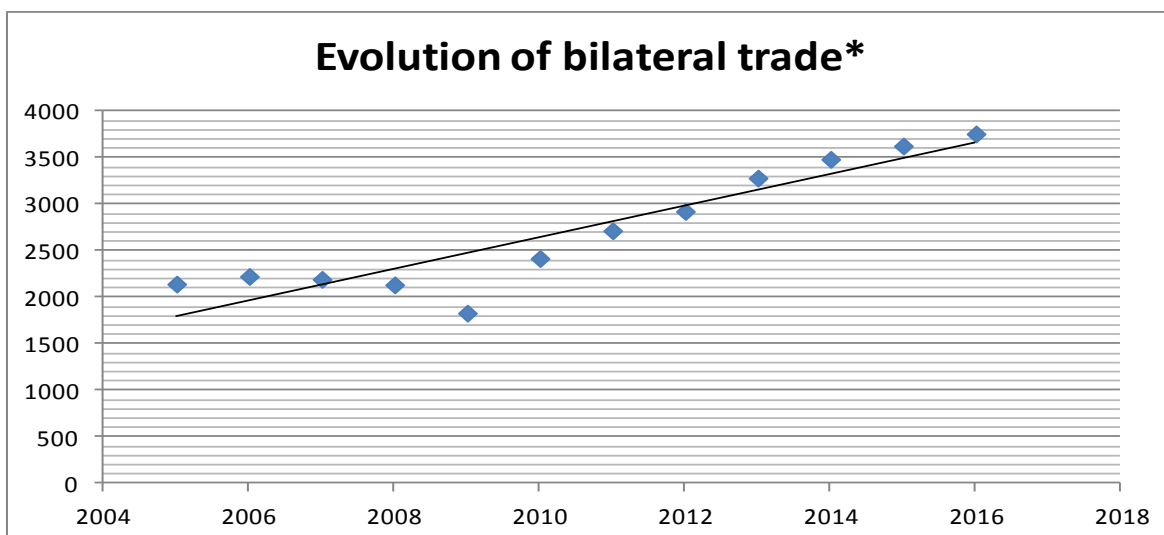
At the end of April 2017, the European Council has approved the guidelines for the negotiations on Brexit. These guidelines define the general framework for negotiations under the Article 50 of the Treaty on European Union, and establish the positions and the general principles that the Union will pursue during the negotiations (European Council (Art. 50) guidelines for Brexit negotiations, 29.04.2017).

According to the guidelines, the Union will maintain its unity and act as whole in the context of the negotiations, with the purpose of obtaining a balanced result for all member states, as well as for the citizens. Thus, there will be no separate bilateral negotiations between the member states and the United Kingdom.

Any agreement with the United Kingdom will be based on a balance between rights and obligations, while the four liberties of the Single Market will remain indivisible.

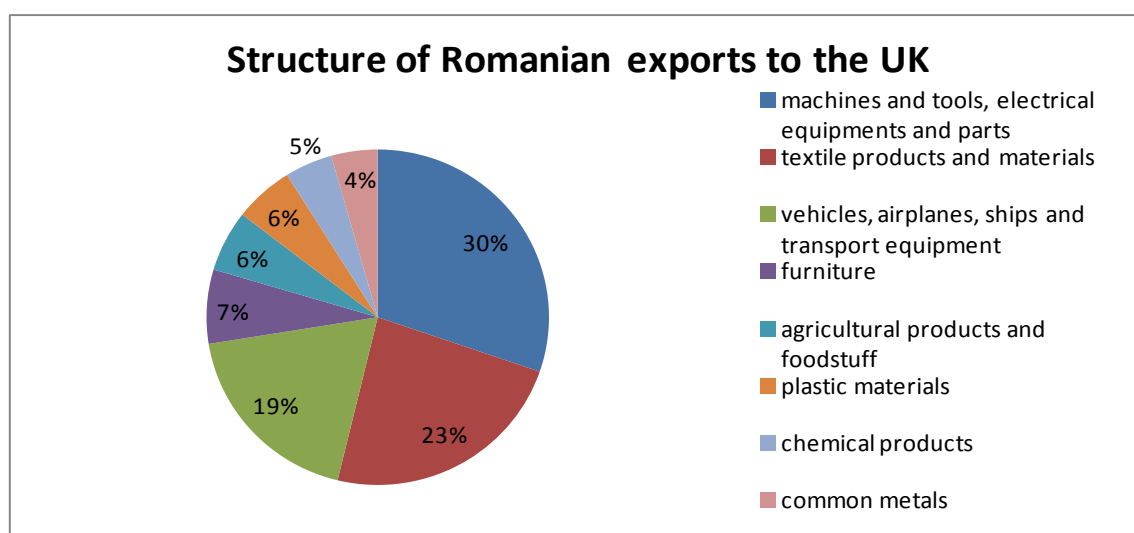
Trade between Romania and the United Kingdom

Commercial exchanges between Romania and the UK have registered an upward trend, especially beginning with 2005, after concluding, in December 2004, Romania's negotiations to join the European Union. In 2015, bilateral trade rose up to EUR 3.94 billion, with a trade surplus of EUR 814 million in favor of Romania. In the first 11 months of 2016, bilateral trade exceeded the whole previous year, rising up to EUR 3.76 billion, with a EUR 898 million trade surplus for Romania (Results of Romania's International Trade between 01.01. - 30.11.2016, p. 4).



* Data on 2016 bilateral trade is available for the period January-November.

The United Kingdom of Great Britain and Northern Ireland is the leader of the hierarchy of countries with which Romania has a trade surplus (+EUR 898 million). (Results of Romania's International Trade between 01.01. - 30.11.2016, p. 4).



Sources: Department of Foreign Trade - Ministry for the Business Environment, Trade and Entrepreneurship; Ministry of Foreign Affairs

Romanian imports from the UK represent around 1% of the GDP, and Romanian exports to the UK represent around 1.5% of Romania's GDP.

British investments in Romania

In 2015, British investments in Romania rose up to EUR 1.346 billion (position 13 in the hierarchy of foreign investors), representing 2.1% of the total foreign direct investment in Romania.

It is necessary to take into account that, given the regime on foreign investments in Romania that is regulated by the European Union, negotiations regarding the post-Brexit relation EU-UK will also aim to tackle aspects that are related to the investment relation between the two parties (National Bank of Romania).

Effects of Brexit on Romania - Opinions

An analysis on the effect of Brexit on the Romanian business environment (Coface, 01.07.2016) reveals that, given the dimension of bilateral trade, the direct impact on short term is rather limited. Romanian exports represented 1.5% of the Romanian GDP in 2015, and direct British investments just 2.1% of the total foreign direct investment in Romania.

Generally, negative effects will be impacting the European Union's overall budget, as the UK had a contribution of 13.45% of the Union's budget in 2016, respectively GBP 10.76 billion, being the third largest contributor in the EU, after Germany (19%) and France (16.3%). After UK's exit, the Union's budget will be proportionally reduced, an aspect which will have an impact on EU's Regional Policy.

An opportunity for Central and Eastern European countries, including Romania, refers to employees' relocation process, currently working for big companies that have their headquarters in the UK, from the financial sector, legal services, research and design. According to the Association of Business Service Leaders, demand for jobs in these areas will triple, up to 1 million new jobs, between 2015-2025 (Apostoiu, 11.04.2017). Goldman Sachs already expressed its interest to hire new staff in Poland, by cutting their staff in London in half, while Pfizer will hire new employees in the Czech Republic, JP Morgan Chase could relocate up to 2,500 jobs in the region, especially in Poland, and Hewlett-Packard could relocate to Cluj-Napoca, in Romania, where it already has offices (Apostoiu, 11.04.2017).

UK's exit from the European Union will affect the business environment in the EU that is currently engaged in trade with or inside the UK, as well as British businesses that have trade with EU countries. Therefore, within the negotiations there will be a special focus on avoiding a legislative vacuum, once the Treaties will stop being enforced for the UK. The aim of the European Union is to reduce to the lowest level possible any cost applicable to EU citizens, to businesses, and to its member states (Remarks by President Donald Tusk on the next steps following the UK notification, 31.03.2017).

Romania should make use of this framework and to negotiate the transfer of the European Medicines Agency (EMA) from the UK in our country, as it is one of the countries in the EU which does not host any European agency on its territory (Stolojan, 10.04.2017). In the meantime, Romania should take into account the less positive scenario caused by Brexit, which could harm the EU as a whole, such effects having to be tackled at national level both socially and economically.

Scenarios regarding the post-Brexit EU/Romania - United Kingdom relation

Bearing in mind Romania's direct interests and taking into account the British market's dimension, a post-Brexit comprehensive commercial agreement between the EU and the UK is desirable.

1. European Economic Area / customs union - improbable scenario

A potential UK accession to the European Economic Area or to a customs union, similar to the one between the EU and Turkey, are not likely to happen because of the similarities that such a scenario holds with the current situation (free movement of people for the EEA, European rules and jurisdiction for the customs union).

2. World Trade Organization - temporary probable scenario

It is probable to witness, at least temporary, to a scenario in which WTO tariffs will be enforced post-Brexit, given the fact that European leaders have announced their intention to negotiate a trade deal with the UK only after the latter is no longer an EU member state. Therefore, WTO tariffs would be enforced on bilateral EU-UK trade starting with March/April 2019.

3. Preferential models - desirable scenario for Romania

The EU has preferential agreements with various countries, such as Canada, Switzerland, Balkan countries, Kazakhstan, South Korea, India etc. According to statements from British and European leaders, **it is probable that UK's objective will be to negotiate and enforce an agreement such as the Comprehensive Economic and Trade Agreement between the EU and Canada, possibly slightly extended than CETA. Enforcing a trade deal CETA - like would diminish or remove tariffs for goods and services trade between Romania and the UK. The ideal scenario would be to enforce a trade and investment deal as extended as possible between the EU and the UK, in order to harmonies legislation between the two parties, aiming to remove not only trade tariff barriers, but also non-tariff barriers in bilateral trade.**

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